

**Tucson Supplemental Retirement System
Board of Trustees
Funding Policy**

As Reviewed and Documented by TSRS Board on September 24, 2015

Background: The purpose of TSRS Funding Policy is to provide the framework in which the TSRS Board of Trustees recommends an annual contribution amount, and is designed to provide assurance that the Tucson Supplemental Retirement System ("TSRS") will remain viable and sustainable, and that the cost of the benefits provided by TSRS will be funded in an equitable manner. The TSRS funding policy is based on the following primary principles:

1. TSRS will obtain the actuarially determined contribution (ADC) annually and the TSRS Board will certify the ADC to the City annually.
2. The City is required to appropriate and pay over to TSRS the ADC under the Tucson City Code ("TCC").
3. The Board intends to encourage the City to extinguish the TSRS unfunded liability over a 12 – 15 year time period by recommending that the City contribution to TSRS remain fixed at a minimum of 27.5% of payroll,
4. The ADC will be calculated in a manner designed to fully fund (the unfunded liability is zero) the long-term costs for the benefits while balancing the goals of stable contribution rates and the allocation of members' costs over their working lifetime.
5. The TSRS board wishes to demonstrate accountability and transparency by communicating all of the information necessary for assessing the City's progress toward meeting its pension funding objectives.

Effective July 1, 2013 the contribution requirement for members hired after July 1, 2006 was changed from 40% of the Actuarial Required Contribution (or "ARC," as defined below) to a range of 50% to 100% of the normal cost of their given tier. In no event shall the variable contribution tier members contribute less than 5% of pay as set forth in TCC §22-34(a) and (b). Members hired prior to 7/1/2006 contribute 5% of pay.

Purpose: The Funding Policy will cover four core elements of a funding policy:

1. **Annual Required Contribution or ARC**-The annual amount necessary to fund the sum of the employer normal cost, the employee segment normal cost amounts, and the annual amortization requirements for the System's unfunded accrued liability.
2. **Administrative Expenses**-The reasonable and appropriate costs incurred in connection with the administration of the System on an annual basis.
3. **Rounding Policy**-The adjustment to the actuarially determined contribution rates, designed to minimize volatility in contribution rates from year to year.
4. **Actuarially Determined Contribution**- *the contribution amount derived by subjecting the sum of the ARC and the administrative expenses to the Rounding Policy.*

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Authority: The Board has been granted the power and authority necessary to effectuate the administration, management and operation of TSRS. TCC §22-44(a). The actuarially determined contribution (ADC) to TSRS is set by the Board each fiscal year. TCC §22-30(mm). In connection with the determination of the ADC, the Board is required to certify to the City Manager the ADC, the Member Contribution rate(s) and the City Contribution. TCC §22-35(b).

Policy:

1. Annual Required Contribution

The Annual Required Contribution or ARC is determined on a fiscal year basis by the System's actuary in accordance with generally accepted actuarial principles. The ARC is the sum of the employer normal cost, the employee segment normal cost and the annual amortization of the System's unfunded liability, calculated with the following actuarial assumptions and methods:

a. Actuarial Cost Method

The actuarial cost method is the individual entry age normal cost method, level percent of pay. This method conforms to the actuarial standards of practice and allocates normal costs over a period beginning no early than the date of employment and does not exceed the last assumed retirement age. This cost method fully funds the long-term costs of the promised benefits of the employees' period of active service.

b. Asset Valuation Method

To minimize the volatility effect of contribution rates affected by investment gains or losses during the year, the Board has adopted a smoothing process that involves spreading the difference between actual and expected market returns over a five year period to determine the actuarial value of assets.

c. Amortization Policy

The Board has adopted a 20 year open, level percent of pay amortization policy. A single unfunded amount is determined with each actuarial valuation, and that amount is then amortized over a 20 year period, assuming that the contribution amounts will remain level as a percent of the total payroll (so the dollar amount of the contribution is assumed to grow each year). The Board's amortization policy was most recently revised effective July 1, 2013.

2. Administrative Expenses

The annual administrative expenses actually incurred by the System, based on the administrative operating budget approved by the Board in advance of the fiscal year and determined as of the end of

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the fiscal year, shall be included in the calculation of the Actuarially Determined Contribution in accordance with sound actuarial principles. Administrative expenses paid by the System and included in the calculation of the ADC shall be reasonable and appropriate, and shall include staff salaries and related overhead expenses, actuarial, legal and other professional consulting fees, accounting charges, compliance expenses, and other fees and expenses necessary for the efficient administration of the System. Investment fees and expenses shall not be included in the calculation of the ADC. Administrative expenses shall be included in the calculation of the ADC prior to the application of the Contribution Rounding Policy set forth below.

3. Contribution Rounding Policy

a. Purpose

This Contribution Rounding Policy is intended to (1) minimize volatility in the Member Contribution rates and the related impact on the net take home pay of employees, (2) eliminate minor adjustments in contribution rates, and (3) recognize the inherent timing gap between actuarial valuation data and the effective date of new contribution rates.

b. Rounding Policy

The Board shall determine and certify Member and City Contribution rates in accordance with all applicable provisions of the TCC and, effective July 1, 2014, the terms of this Contribution Policy as set forth below:

- I. Member Contribution Rates: Member Contributions for Legacy Members, Tier I Members and Tier II Members shall be determined by the TSRS actuary pursuant to TCC Section 22-34: members hired prior to July 1, 2006 (the "Legacy Members"), members hired between July 1, 2006 and June 30, 2011 ("Tier I Members") and members hired on or after July 1, 2011 ("Tier II Members"). The actuarially determined Member Contribution rate for each group shall be referred to as the "Calculated Rate" for the applicable group.

The Board will then review the Calculated Rate for each member group and set the "Charged Rate" for the upcoming fiscal year. The Charged Rate will equal the Calculated Rate, rounded up to the nearest 0.25. The Charged Rate for a member group shall never be less than the Calculated Rate for that member group (for that same fiscal year).

Examples:

Year 1:	Actuarially Calculated	
	Tier I Member Contribution Rate:	6.67% of pay

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	Charged Rate for Tier I Member Contribution:	6.75% of pay
Year 2:	Actuarially Calculated Tier I Member Contribution Rate:	6.48% of pay
	Charged Rate for Tier I Member Contribution:	6.50% of pay

- II. City Contribution Rates: The City Contribution rate for a particular fiscal year equals the difference between the Actuarially Determined Contribution and the Member Contribution rate(s). TCC §22-30(t). Because there are three different Member Contribution rates, the TSRS actuary shall calculate a City Contribution rate for each member group and a blended City Contribution rate for the entire member population. In no event shall the blended City Contribution rate for the entire member population be less than the City Contribution rate for any member group. The City Contribution rates calculated by the TSRS actuary are referred to as the "Calculated Rates."

The Board will then review the Calculated Rates and set the "Charged Rate" for the City Contribution for the upcoming fiscal year. The Charged Rate will equal the blended Calculated City Contribution rate, rounded up to the nearest 0.50. The Charged Rate shall be rounded up to the nearest 0.50 instead of the nearest 0.25 because the Charged Rate is a blended rate. The Charged Rate shall never be less than the Calculated Rate for any member group for that same fiscal year.

Example:

Actuarial Calculated City Contribution Rates
for three member groups:

Legacy Members:	27.22% of pay
Tier I Members:	25.55% of pay
Tier II Members:	27.08% of pay

Actuarially Calculated Blended City Contribution Rate 26.95%

Charged Rate for City Contribution: 27.50% of pay
(Charged Rate is not set at 27.0% because that
would be less than the Calculated Rate
for two of the member groups)

- III. Funded Status of TSRS: It is the goal of the Board to increase the funded status of TSRS. The Board anticipates that Calculated Rates for both Member Contributions and City Contributions may decrease from time to time, based on various actuarial

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factors. The Board will not recommend a decrease in the Charged Rate for Member and/or City Contributions until such point as TSRS is fully funded because the unfunded accrued liability has been extinguished, and the Calculated Rates for Member and City Contributions represent the payment of the normal cost of benefits only. Moreover, the Board shall recommend a decrease in the Charged Rates for Member Contributions only to the extent that the Charged Rates for Tier I Member Contributions and Tier II Member Contributions decrease simultaneously, in the same percentage of pay.

Attachment: TSRS Actuarial Assumptions Addendum to TSRS Code Sec. 22-30(d)

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Tucson Supplemental Retirement System ("TSRS")

Addendum to TSRS Code Sec. 22-30(d)

TSRS Actuarial Assumptions

To determine the value of actuarially equivalent member benefits under TSRS, the following actuarial assumptions shall continue to be applied, effective as of July 1, 2016:

Interest Rate: **7.25%**

Mortality Table: **Mortality Table: RP-2000 Combined Mortality Table for males and females projected with Scale BB to 2020**

The foregoing actuarial assumptions are adopted in accordance Tucson Code Chapter 22, Section 22-30(d) and are incorporated into this Addendum as required pursuant to Section 401(a)(25) of the Internal Revenue Code of 1986, as amended.

This Addendum hereby is executed by an authorized representative of the Tucson Supplemental Retirement System Board of Trustees, pursuant to action taken at a duly called meeting of the Board held on the 24th day of September, 2015, at which a quorum was present.

By: 

Name: Robert Fleming

TSRS Board of Trustees